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The attached memoranda on Japan were prepared for Ambassador Brock to use in the US-EC-Japan-Canada talks on 15-17 January. The memoranda were also given to Transportation for use by a delegation discussing US-Japan civil air negotiations.

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Japan: A Political Overview

As Japan enters the new year, it is led by a stable government dominated by the Liberal Democratic Party (LDP), which has ruled for a quarter of a century. Zenko Suzuki's position as Prime Minister is virtually assured until at least late in the year, and the Cabinet, in place for just over a month, is a strong one. The LDP, which established solid control of the Diet in elections held in July 1980, does not face another test at the polls until summer 1983.

The new year, however, will not be an easy one for the Japanese Government. The Prime Minister and his Cabinet must focus on the mounting trade surplus with the United States and the EC and on the next stage of administrative reform, a program to solve some of the nation's pressing domestic fiscal problems. Easing friction with Washington over defense matters will be another goal. These problems are complicated by the interrelationship among them. In many cases, acceptable solutions to one will limit efforts to solve another, and the government must play a trade-off game as it addresses these critical issues.

The stakes in that game are particularly high for Suzuki as he seeks re-election in November for the presidency of the LDP--the prerequisite for the prime ministership. He must appear to have handled trade problems effectively, quieted US criticism of Japan's defense effort, and moved forward on administrative reform. He must retain the support of his key factional allies--former Prime Ministers Fukuda and Tanaka--both in order to make the needed progress toward solving the problems confronting Japan and to win reelection to his party's top post.

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He sought to ensure the backing of the Tanaka faction, the largest in the party, when he named senior faction leader Susumu Nikaido to the powerful post of party secretary general in November. Suzuki was also careful to name a factionally balanced cabinet in which he included his potential rivals for the presidency, locking them into support for the policies of his government. Nonetheless, Suzuki must be constantly alert to changing factional loyalties and policy positions.

The Trade Surplus

Japan's trade problem was one of the major issues that Suzuki considered as he selected his second cabinet last November. Personal rivalries between the Minister of International Trade and Industry and the Foreign Minister had prevented a coordinated government policy on trade with the United States and the EC. The new MITI (Shintaro Abe) and Foreign (Yoshio Sakurauchi) Ministers are competent team players who worked well together as top LDP executives during 1979-81. The smooth manner in which they agreed on Abe as the chief Japanese delegate to the US-EC-Japan-Canada talks in January (the subject of bitter debate in the previous cabinet) demonstrates their ability to cooperate. Both are sensitive to the problems of bureaucratic coordination and are skilled in Japanese-style consensus building and compromise.

In his effort to end serious friction with key trading partners, Suzuki has reached outside his Cabinet. He has asked the administrative reform council, led by respected senior business leader Toshio Doko, to consider methods for easing trade tension. In this way, the Prime Minister hopes to build support in the business community for solutions to trade problems. To build an LDP consensus in favor of significant trade liberalization he has established a special LDP council on international economic measures. The council's recommendations are expected by the end of January and are to serve as the basis for amendments to existing laws, which the government will submit to the Diet this year.

Suzuki has planned carefully to forestall criticism of government proposals for easing trade friction, but the problem will remain a thorny one. Although Abe and Sakurauchi can work together, the contrasting constituencies and mandates of their ministries will inevitably lead to interministerial friction. The LDP council has the clout necessary to overcome opposition to trade liberalization measures from individual LDP Dietmen, but

how far the council will be willing to go in its recommendations is uncertain. Because support from a rural, agricultural base has kept the LDP in power for 26 years, rapid or significant changes in agricultural quotas are unlikely. Special interests ranging from the automobile industry to the banking community provide political funds to various LDP factions. Members of those factions will oppose any change in trade policy that would provoke those supporters.

Administrative Reform and Defense

The government will have to balance proposals for easing trade friction with the demands of the next stage of administrative reform, another goal of the Suzuki administration this year. One method of facilitating US and EC imports, for example, would be to stimulate domestic demand. If Japan opts to stimulate domestic demand by increasing government spending, however, some of the strict austerity measures called for in the administrative reform program would have to be sacrificed.

Pressing ahead on administrative reform, on the other hand, would threaten efforts to respond to US pressure for an increased Japanese defense effort. The administrative reform program includes a reduction in government spending in such popular budget areas as education and welfare. Opponents of these cuts are likely to demand that if a reduction in government spending is necessary, defense should be included in the cutbacks. Suzuki will hear these arguments in the Diet session that convenes on 20 January, particularly because of the comparatively large increase in defense spending approved by the cabinet in late December. The opposition parties will charge that Suzuki has bowed to US pressure.

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